

# The Market Administrator's

# BULLETIN

## NORTHEAST MARKETING AREA

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August 2011

Federal Order No. 1

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### August Pool Price Calculation

The August 2011 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$23.22 per hundredweight for milk delivered to plants located in Suffolk County, Massachusetts (Boston), the pricing point for the Northeast Order. The statistical uniform price is calculated at 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids. If reported at the average tests of producer pooled milk, the SUP would be \$23.45 per hundredweight. The August statistical uniform price was 46 cents per hundredweight above the July price and the highest ever under the Order, surpassing the previous high set in August 2007. During 2007, cheese prices were strong, but nonfat dry milk largely was the primary factor in the record-setting blend prices. In contrast, prices during these same months in 2011 have been driven by cheese and butter prices at near record monthly highs. The August producer price differential (PPD) at Suffolk County was \$1.55 per hundredweight, an increase of 18 cents per hundredweight from last month.

During August, all commodity prices rose slightly except nonfat dry milk. As a result, all class prices rose except Class IV, which declined 19 cents from July, but all class prices remained over \$20.00 per hundredweight. The total volume of producer milk receipts utilized in Class I rose while the amount used in Class IV declined. More milk in the higher priced classes, and less in the lowest price class, helped push the statistical uniform price over \$23.00 per hundredweight.

The Class II volume for August set a new record for the largest ever since the Order's inception. The producer other solids test tied with 2010 for the highest value for the month of August. ❖

### Request to Change Shipping Percentages

In August, the Market Administrator received a request from a pool handler, representing a significant volume of milk pooled on the Northeast Order, to increase the percentage of milk that pool supply plants and cooperative Section 1000.9(c) handlers must deliver to Class I pool distributing plants during the months of September, October, and November. This provision of the Order is commonly referred to as the "shipping percentage", which stipulates that during the months of (continued on page 3)

### Pool Summary

- A total of 12,874 producers were pooled under the Order with an average daily delivery per producer of 4,955 pounds.
- Pooled milk receipts totaled 1.978 billion pounds, a decrease of 0.9 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 42.0 percent of total milk receipts, an increase of 3.3 percentage points from June.
- The average butterfat test of producer receipts was 3.59 percent.
- The average true protein test of producer receipts was 3.00 percent.
- The average other solids test of producer receipts was 5.70 percent. ❖

#### Class Utilization

| Pooled Milk       | Percent | Pounds        |
|-------------------|---------|---------------|
| Class I           | 42.0    | 830,634,438   |
| Class II          | 26.5    | 523,575,717   |
| Class III         | 24.2    | 478,491,682   |
| Class IV          | 7.3     | 144,930,567   |
| Total Pooled Milk |         | 1,977,632,404 |

#### Producer Component Prices

|                    | 2011   | 2010   |
|--------------------|--------|--------|
|                    | \$/lb  |        |
| Protein Price      | 3.8305 | 2.3788 |
| Butterfat Price    | 2.2985 | 2.0336 |
| Other Solids Price | 0.3811 | 0.1647 |

#### Class Price Factors

|           | 2011   | 2010  |
|-----------|--------|-------|
|           | \$/cwt |       |
| Class I   | 24.68  | 19.02 |
| Class II  | 21.55  | 16.98 |
| Class III | 21.67  | 15.18 |
| Class IV  | 20.14  | 15.61 |

## Class I Utilization Low

There was a relatively large increase in Class I utilization in August, compared to July, to about 831 million pounds. Still, this was the second lowest Class I utilization for the month of August but close to what has been typical the past few years. Class I utilization has averaged 832 million pounds in August from 2008 through 2010. In fact, 2008 total milk pooled and Class I pounds were almost identical to those of 2011.

July 2011's 773 million pounds of Class I was a record low for the Order, beating the low mark just set the previous month. It isn't notable that Class I utilization would be at its lowest during the summer; average daily Class I utilization by month is normally lowest for the month of July, followed by June and then August. What is notable is the level to which Class I utilization has declined to in the Northeast during the first two months of the summer.

### Multiple Factors at Work

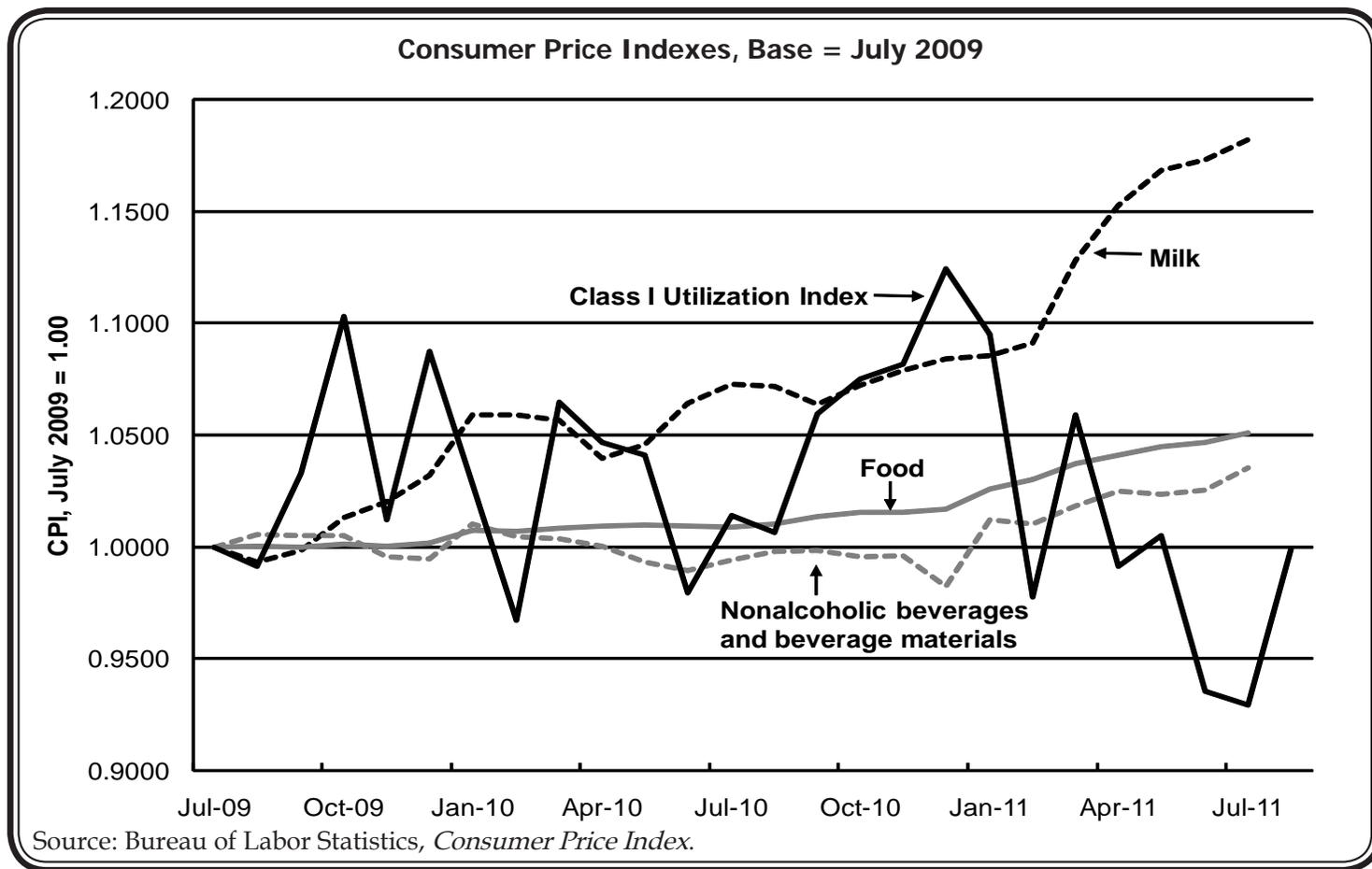
What factors are resulting in lower Class I utilization? Certainly, such things as how milk is marketed, the changing nature of at-home eating habits, and even perceived health issues such as lactose intolerance factor into a longer term decline in per capita fluid milk consumption, but the recent decline has been dramatic. While Class I utilization has sagged recently, increases in Class II utilization have been pronounced, led by strong increases in yogurt sales. This trend is leading some to

believe that there may be some substitution of yogurt for fluid milk by consumers meeting the dairy portion of their diet. In addition, strong exports of manufactured products have been accounting for almost 15 percent of U.S. milk production on a solids basis and has benefited the overall demand picture. Strong demand for milk and milk components in the form of manufactured products has resulted in lifting the component prices that drive the Class III and Class IV prices, which in turn drive Class I prices. The resulting high Class I prices may be one of multiple factors leading to softer sales.

### Price as a Factor?

A look at average daily total Class I utilization since July 2009 shows the seasonal nature of Class I usage. However, total Class I utilization appears to have declined to a larger degree in 2011. Chart 1 shows the CPI for milk, for all nonalcoholic beverages and beverage materials, and for food. Each series has been benchmarked with July 2009 equal to 1.00. Total average daily Class I utilization also is shown on the chart as indexed to July 2009. The picture shows the CPI for milk rising 17.3 percent since July 2009; over 47 percent of that increase has occurred since February 2011. At the same time, the CPI for nonalcoholic beverages and beverage products has increased just 2.6 percent. The nonalcoholic beverage category does not

*(continued on page 3)*



## **Class I** *(continued from page 2)*

include milk. This does not necessarily mean milk is more expensive than other nonalcoholic beverages, but it does mean that milk has become more expensive relative to its competition for total beverage consumption.

The decline in the average daily total Class I utilization index during 2011 is in some part normal seasonality, but also corresponds with the more dramatic increase in the milk CPI from February 2011.

Prices are expected to soften some based on Chicago Mercantile Exchange (CME) futures Class III and Class IV prices, which may help milk sales. Based on September 15 CME futures prices, the Northeast Order Class I price in Boston, MA, is projected to drop by \$3.18 per hundredweight from September to November. Still, those same futures prices project the Class I price to remain above \$20 per hundredweight in Boston, MA, throughout 2012. September 2011 utilization would have to increase by 6.0 percent more than August 2011 to reach September 2010 levels. The three-year average August to September increase has been 4.8 percent. It appears likely that September 2011's utilization will be similar to, or below, recent Septembers. ❖

## **Request to Change** *(continued from page 1)*

September through November, shipments and transfers by pool supply plants and cooperative handlers must equal not less than 20 percent of the total quantity of producer milk pooled by such handlers. The rationale behind this provision of the Order is that it helps assure that an adequate supply of milk will be available for Class I distributing plants at a time of the year when milk production typically is slowing, and Class I demand is on the increase as schools reopen.

Following the receipt of the request, the Market Administrator's office conducted an analysis of milk volumes pooled on the Northeast Order and milk utilization patterns. In addition, pool handlers were invited to submit comments and data advocating their respective position on the proposed shipping percentage change. After reviewing the data and comments submitted by pool handlers, it was determined that administrative action by the Market Administrator, in the form of temporarily raising the shipping percentages, was not necessary. Milk volumes utilized in Class I, in the Northeast Order, had been declining in recent months. The Class I volume for July 2011 was the lowest for any month in the Northeast Order since the Order's inception in 2000 – a period of 139 months. June 2011 was the second lowest ever. August's Class I utilization did increase, but still fell below the average for the month. Although there also have been some declines in milk pooled on the Order in recent months, the declines in Class I utilization were greater.

## **Request** *(continued)*

When considering such a request to administratively modify the required shipping percentages, it is important that the Market Administrator's decision does not result in uneconomic or unnecessary movements of milk and only helps to solve a problem. Submitted remarks from other pool handlers indicated that the dairy industry could resolve any temporary supply-utilization imbalances rather than resorting to administrative action. Copies of the decision prepared by the Market Administrator can be found on the Northeast Order's website [www.fmmone.com](http://www.fmmone.com). ❖

## **Pooling Storm Dumped Milk**

At the end of August, Hurricane Irene barreled up the East Coast leaving in its path a trail of destruction including washed out roads and bridges, with particularly hard hit areas in southern Vermont and Eastern New York. As a result dairy farmers, in some cases, were forced to dump milk on their farms when milk trucks were unable, due to washed out and closed roads, to reach farms on a timely basis.

The Market Administrator allowed such handlers or cooperatives, with storm related producer milk dumps, to pool this milk on the Order for the month of August. Such action allowed pool handlers to receive a draw from the Northeast Order producer settlement fund which together with the handler's payment obligation, ensured that effected producers were paid for milk that they had to dump. Due in part to resourcefulness of milk haulers and handlers, milk dumps were limited to 48 farms who collectively dumped milk valued at about \$50,000. The cost to the Northeast Order pool was less than \$7,000; however, it provided a boost to farms most effected by the storm. Damage to field crops and farm fields likely will have a more lasting impact on the financial situation of dairy farms in the most effected regions. ❖

## **Mideast Order Hearing Announced**

The USDA announced a public hearing will be held to consider proposals to amend the pooling standards for pool distributing plants in the Mideast Milk Marketing Area. The hearing will begin at 8:00 a.m. on October 4, 2011, in Cincinnati, Ohio.

The hearing notice is published in the September 8, 2011, *Federal Register*. It is also available at: [www.regulations.gov](http://www.regulations.gov). Anyone interested in participating should notify a USDA official upon arrival to the hotel. For a copy of the notice and additional information, contact Paul A. Huber, Market Administrator; USDA/AMS/Dairy Programs; P.O. Box 5102; Brunswick, OH, 44212; telephone (330) 225-4758; email: [phuber@fmmaclev.com](mailto:phuber@fmmaclev.com).

For additional information regarding this issue, see the June 2011 *Bulletin*. ❖



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**Computation of Producer Price Differential and Statistical Uniform Price\***

|                                                                  | <u>Product Pounds</u>         | <u>Price per cwt./lb.</u> | <u>Component Value</u> | <u>Total Value</u>      |
|------------------------------------------------------------------|-------------------------------|---------------------------|------------------------|-------------------------|
| Class I— Skim                                                    | 814,746,256                   | \$17.30                   | 140,951,102.29         |                         |
| Butterfat                                                        | 15,888,182                    | 2.2821                    | 36,258,420.14          |                         |
| Less: Location Adjustment to Handlers                            |                               |                           | (2,826,358.19)         | \$174,383,164.22        |
| Class II— Butterfat                                              | 29,806,022                    | 2.3055                    | 68,717,783.75          |                         |
| Nonfat Solids                                                    | 44,550,184                    | 1.5522                    | 69,150,795.59          | 137,868,579.34          |
| Class III— Butterfat                                             | 18,178,944                    | 2.2985                    | 41,784,302.79          |                         |
| Protein                                                          | 14,344,829                    | 3.8305                    | 54,947,867.51          |                         |
| Other Solids                                                     | 27,217,597                    | 0.3811                    | 10,372,626.21          | 107,104,796.51          |
| Class IV— Butterfat                                              | 7,102,008                     | 2.2985                    | 16,323,965.40          |                         |
| Nonfat Solids                                                    | 12,452,829                    | 1.3920                    | 17,334,337.99          | 33,658,303.39           |
| <b>Total Classified Value</b>                                    |                               |                           |                        | <b>\$453,014,843.46</b> |
| Add: Overage—All Classes                                         |                               |                           |                        | 120,513.80              |
| Inventory Reclassification—All Classes                           |                               |                           |                        | 266,012.17              |
| Other Source Receipts                                            | 2,255,975 Pounds              |                           |                        | 40,794.77               |
| <b>Total Pool Value</b>                                          |                               |                           |                        | <b>\$453,442,164.20</b> |
| Less: Producer Component Valuations @ Class III Component Prices |                               |                           |                        | (433,011,042.75)        |
| <b>Total PPD Value Before Adjustments</b>                        |                               |                           |                        | <b>\$20,431,121.45</b>  |
| Add: Location Adjustment to Producers                            |                               |                           |                        | 10,140,823.87           |
| One-half Unobligated Balance—Producer Settlement Fund            |                               |                           |                        | 1,066,056.77            |
| Less: Producer Settlement Fund—Reserve                           |                               |                           |                        | (949,732.26)            |
| <b>Total Pool Milk &amp; PPD Value</b>                           | 1,979,888,379 Producer pounds |                           |                        | <b>\$30,688,269.83</b>  |
| Producer Price Differential                                      |                               | <b>\$1.55</b>             |                        |                         |
| Statistical Uniform Price                                        |                               | <b>\$23.22</b>            |                        |                         |

\* Price at 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids.